

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 7492**

**BILL NUMBER:** SB 543

**NOTE PREPARED:** Jan 19, 2009

**BILL AMENDED:**

**SUBJECT:** Child Support.

**FIRST AUTHOR:** Sen. Taylor

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
X FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides a \$1,000 deduction from Adjusted Gross Income for each child for whom a noncustodial parent is paying more than 50% of the noncustodial parent's child's living expenses during a taxable year.

The bill requires a court to order interest charges on all delinquent child support payments up to seven percent per month. The bill also provides that current income withholding requirement for Title IV-D child support payments apply to all child support payments.

**Effective Date:** July 1, 2009.

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new tax deduction. The Department's current level of resources should be sufficient to implement this change.

**Explanation of State Revenues:** *Tax Deduction:* This bill provides a \$1,000 deduction from Adjusted Gross Income (AGI) and could potentially reduce income from the state General Fund by an indeterminable amount beginning in FY 2010. The deduction is for each child for whom a noncustodial parent is paying more than 50% of their living expenses during a taxable year.

This bill would reduce AGI tax liabilities of qualified taxpayers by \$34 per child. Data was not available for the number of noncustodial parents who pay more than 50% of their child's living expenses. However, currently there are approximately 250,000 Indiana residents who are ordered to pay child support. This number only includes Title IV-D cases, and may include residents who are not paying child support. If 10%

of these residents qualify for and claim the deduction, then revenue would be reduced by \$850,000. If half of these residents qualify for and claim the deduction, then revenue would be reduced by \$4.3 M. The tax deduction is effective for tax year 2009, so the fiscal impact could occur in FY 2010. Revenue from the AGI Tax on individuals is deposited in the state General Fund.

*Delinquent Child Support Payments Interest Increase:* By increasing the interest rate assessed from delinquent child support payments from no more than 1.5% to no more than 7%, this bill may increase amounts of child support collected by custodial parents. Actual increases in child support payments received by custodial parents would depend on court action on a case-by-case basis. Increasing the interest rate assessed on delinquent child support payments may not necessarily increase monthly child support payments, but may only increase the overall amount of child support that is owed to a custodial parent.

*Income Withholding for all Child Support Payments:* This bill requires that all child support payments be made through employer income withholdings, and may increase child support collections in the state. Current statute provides that only Title IV-D proceedings may be subject to employer income withholding for child support payments. The federal IV-D program allocates federal funding to states based on child support collection data. To the extent that this bill increases child support collections in the state, the state may also receive additional federal funding under the federal IV-D program.

*Background Information - Federal Provision for Noncustodial Parents Claiming Exemption for Children:* Custodial parents may release the claim to exemption for a child to a noncustodial parent for federal income taxes by filing Form 8332. The custodial parent may release the claim to the exemption for the current tax year, future tax years, or both. Noncustodial parents that will claim the exemption for the child must also file Form 8332. Data from Form 8332 is not tabulated, and so the number of Indiana taxpayers who are custodial parents or noncustodial parents filing Form 8332 is unknown.

*Title IV-D Program:* In 1975, Congress passed Title IV-D of the Social Security Act, which established the Child Support Enforcement Program. This program provides federal grants to states that provide the following services: (1) establishment of paternity; (2) establishment of child support orders; (3) collection of support payments; and (4) disbursement of funds collected. The Title IV-D program is available to families receiving assistance under the Temporary Assistance for Needy Families, foster care, and Medicaid programs.

*Temporary Assistance for Needy Families (TANF):* Child support payments are deducted from a custodial parent's gross countable income to determine TANF eligibility. If this bill increases the amount of child support payments made to custodial parents who are considered TANF grant recipient families, expenses for TANF cash assistance benefits may decrease. Any decrease in state TANF cash assistance benefits is indeterminable, but expected to be small. By raising the income of TANF grant recipient families, the bill can either reduce TANF cash assistance benefits paid or can make TANF grant recipient families a non-cash assistance benefit receiving family.

In order to remain eligible as a TANF grant recipient family, the parent or caregiver may not have earnings that are more than the federal poverty level. Total TANF benefits administered to the family are determined by (1) family size, (2) respective federal poverty rate, and (3) monthly earned income. If the difference between the respective federal poverty level and earned income is more than the maximum TANF benefit amount, the family will receive the maximum TANF cash benefit assistance amount. However, if the difference between the respective federal poverty level and earned income is less than the maximum TANF

benefit amount, the family will receive the amount that would increase income up to 100% of the federal poverty level. Essentially, the more income a family receives, the less money they can receive from TANF benefits. Families that make 100% of the federal poverty level or more and formerly received TANF benefits are considered TANF non-grant recipient families and are still eligible for other non-cash assistance benefits provided by TANF.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the tax deduction will serve to reduce taxable income, counties imposing local option income taxes may experience a decrease in revenue from these taxes.

**State Agencies Affected:** DOR.

**Local Agencies Affected:** Counties with local option income taxes.

**Information Sources:** David Jordan, Statistical Information Services, Internal Revenue Service, 202-874-0410; Ann Houseworth, Department of Child Services, 317-234-4484.

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